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SUBJECT: ACER - SETTING AN EXAMPLE FOR TAIWAN FIRMS

Summary

1. (U) Acer Inc., one of Taiwan's largest IT firms, has achieved remarkable success in an area where few Taiwan firms have) developing a successful brand name. Former Chairman Stan Shih's management has been key to Acer's success. Under Shih, Acer reorganized to focus on brand marketing, cultivated successful marketing channels in Europe, kept costs down through effective inventory management, and developed a quick and flexible leadership structure. Shih's leadership offers useful lessons. It remains to be seen whether Acer's success will continue without his driving force. End Summary.

2. (U) Acer Inc. is achieving what few other Taiwan IT firms have been able to do. Despite the island's formidable presence in the IT industry, Acer is one of only a handful of local companies that has established an internationally recognized brand name. The growing value of the brand has led to increasing sales. iSuppli, a market research firm, recently announced that Acer had the fifth highest global market share in 2004 PC sales and was closing in fast on number 4 Fujitsu-Siemens. In fact in the fourth quarter of 2004, Acer was fourth behind only Dell, HP and IBM. Unit sales in 2004 were up 44 percent from previous year. Acer has been particularly successful in Europe, where it ranks number 3 for PC sales overall and number 1 for laptops. A number of factors have contributed to Acer's success; not least of which is the personal management style of former chairman Stan Shih, one of the founding figures of Taiwan's IT sector.

Focusing on the "Smile Curve"

3. (SBU) Key to Acer's success is the major reengineering of the firm implemented under Shih's leadership in 2000. Shih is widely known for describing the "smile curve," which shows that the highest value-added occurs at the beginning and the end of the process of designing, manufacturing and selling a product. Shih argued that Acer and Taiwan firms in general should focus on high value-added processes, namely research and development and design at the beginning of the "smile curve" and brand management, marketing and sales at the end. With that goal in mind, Shih reorganized all of Acer's affiliates and subsidiaries into three firms: Acer Inc., Wistron and BenQ. Acer Inc. now focuses on the end of the "smile curve," marketing Acer brand products around the world. Wistron focuses on the beginning and the middle of the curve as an original design manufacturer (ODM), which designs and manufactures products for Acer as well as other firms. Much of Wistron's manufacturing, the low value-added center of the "smile curve," takes place overseas, especially in the PRC. The third firm, BenQ, continues to be both an ODM manufacturer as it also markets its own brand name products. It was allowed to evolve separately from the other firms and is now almost completely independent. Acer President for International Operations, T.Y. Lay, told AIT/T that Acer now sees BenQ only as a competitor.

4. (U) In the process of these changes, Shih focused and unified the new Acer Inc. As he describes in his book "Millennium Transformation) Management Change for Acer," published last year to mark his retirement, the reorganization of Acer was implemented to follow his "three ones and three pluses" strategy. His "three ones" are one global team, one brand, and one company. The structure emphasizes unified management and horizontal integration among all of the company's various international divisions (one global team). In addition, Acer Inc. would only sell Acer brand name products (one brand) and no other firm would be allowed to use the name (one company). The "three pluses" mean that Acer will use more suppliers, sell more products and use more marketing channels. A key point in the "three pluses" strategy is that Acer would continue to use Wistron as an ODM manufacturer, but breaking with past practices, it would also contract manufacturing from other firms as well.

Keeping the Middle Man Happy

15. (SBU) Some credit Acer's cultivation of marketing channels for its recent success, particularly in Europe. With Dell's remarkable gains using direct internet sales to consumers, HP and IBM have also moved toward direct sales that cut out distributors and retailers. However, Acer has committed itself to working with distributors and retailers, many of whom find themselves increasingly left out by manufacturers that are becoming competitors. As Lay explained, there will always be good distributors and retailers; Acer's strategy is to form cooperative relationships with them. Working together they can increase sales to mutual benefit.

No Secret - Lower Costs

16. (SBU) Direct sales to the consumer, which cut out the overhead and profits of distributors and retailers, offer a price advantage. When asked what secret allowed Acer to stay competitive on price while preserving more traditional marketing channels, Lay said there was no secret)- it was all about lower costs. First, he cited Acer's efficient inventory system. By working closely with suppliers and distributors, and using advanced logistics systems, Acer is able to minimize inventory at every stage. The firm uses a hands-free delivery system. The products are never in Acer's Inc.'s possession, but are instead shipped directly from the ODM manufacturer to the distributor.

17. (SBU) Lay also emphasized Acer executives' low-key style and low compensation. Smiling, he said that while HP's Carly Fiorina had six jets at her disposal, all Stan Shih ever had was one BMW. He also claimed that Fiorina's salary could cover all of the top management at Acer. Acer's headquarters just outside of Taipei seems to underscore Lay's comments. Although large and functional, the building is by no means opulent, especially in comparison to the sparkling new offices of some other major Taiwan high-tech firms like TSMC or Asustek. (Comment: Nevertheless, we can only conclude that savings from lower executive management costs are limited, and Acer's competitiveness relies more heavily on inventory management. End comment.)

Virtual Headquarters

18. (SBU) Another advantage that Lay described is the fast and efficient decision making of Acer's top management. Further illustrating Acer's horizontal integration, Lay told us that the firm is led by an executive committee that consists of just a small handful of executives from the main office and the heads of each of Acer's regional divisions, each a very experienced leader in the PC industry. According to Lay, Acer operates out of the virtual headquarters where this group meets frequently via teleconferencing. He says their great strength is that they can arrive at decisions quickly and implement them around the world almost instantly.

Shih's Style

19. (SBU) Lay believes that this executive committee management structure has worked because of Shih's personal style. He said that Shih is full of creative ideas but encourages his staff to challenge those ideas. There are other examples of how Shih's style and personal philosophies have distinguished Acer from other Taiwan firms. When Shih retired, he was succeeded by J.T. Wang the firm's former President. The fact that Shih did not replace himself with a close family member stands in sharp contrast to many Taiwan firms. Even more notable, Wang was replaced as president by Gianfranco Lanci, the former President of Acer EMEA (Europe, Middle East and Africa). Very few Taiwan firms have foreigners in such high-level positions. Lanci's elevation is indicative of Shih's active internationalization strategy.

Comment) Lessons For All

10. (SBU) The example of Acer reveals some useful lessons for Taiwan firms. However, others, including U.S. firms, could also gain from studying its success. Perhaps one of the most useful pieces of advice in Shih's book, and one his firm has followed, is that the old models of success will not necessarily work in the future. One of the biggest questions is whether Acer's success will continue without Shih's driving force. End Comment.

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